Estimating Tax Buoyancy, Elasticity and Stability in Ethiopia

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Abstract

There is a growing argument among fiscal policy analyst that in developing countries like Ethiopia the revenue generation capacities of a nation play crucial role in shaping the future trends of each country. In this study attempt has been made to estimate tax buoyancy, elasticity and stability in Ethiopia. Accordingly, the major questions of taxation; does tax revenue increases as gross domestic product increases? Is analysed using the conventional estimates of the responsiveness of tax revenue to change in economic growth. 12 years’ data from 3 regional states’ and 1 city administration is used in this study. The result showed tax buoyancy is not responsive for total tax revenue, personal income tax and turn over tax. However, automatic change of revenue for economic growth is exhibited for business profit tax, rental business tax and value added tax. On the elasticity side both aggregate as well as components of tax revenue are not elastic for policy changes in order to improve the efficiency and effectiveness of tax sector via business process reengineering. Accordingly, there is no policy effectiveness observed for the period under investigation in each regional state’s and city administration. Moreover, the tax stability estimates confirm there is no tax component contributed for the stable revenue stream. Based on the findings, among others creating transparent, efficient and effective taxation system as well as strong policy formulation, monitoring and evaluation on other side should take place for the positive role tax revenue plays in economic growth.